

Damascus Economic Feasibility Statement

Prepared for

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by

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Introduction and Legal Requirements

BACKGROUND

In December 2002, the Metro Council expanded the regional urban growth boundary (UGB) by approximately 13,000 acres in the Damascus area. To accommodate expected new urban development in the area, urban services such as transportation, water, sewer, and emergency services must be expanded. The Committee for the Future of Damascus (hereafter, the Committee) is a local group that has taken a lead role in studying future urbanization issues in the Damascus area. Committee members, John Hartsock and Dee Wescott (the chief petitioners) are taking the next step to place the question of incorporation on the ballot.

According to ORS 221.035, to place an incorporation proposal on the ballot, the chief petitioners must prepare an *Economic Feasibility Statement* (EFS). To prepare the economic feasibility statement, the Committee contracted with ECONorthwest (ECO). Committee representatives and ECO staff jointly decided that because of the many uncertainties about the potential services (e.g., which services, provided by whom, at what level, to how many people and when) the Committee would be best served by conducting the analysis in two phases.

In the fall of 2003, ECO completed the Phase I Report, which contained a study of the range of services and functions of the proposed City of Damascus, an analysis of the relationship between those services and functions, and a proposed budget and permanent tax rate for the city. In the winter of 2004, the Committee contracted with ECO for a Supplementary Report that expanded the study area to include an additional 6,300 acres.

The main purpose of these two reports was to inform the Committee about issues and options so that they could fully consider the different levels of public services, the list of services that would be provided by the proposed city, and the desired revenue structure through which the city will fund its operations. The Phase I Report and the Supplemental Report are included as Appendices A and B, respectively.

This document is the Phase II Report: the Economic Feasibility Statement for the incorporation of the City of Damascus. It is based on the findings of the Phase I Report and the Supplemental Report. The information presented here is designed to satisfy all legal requirements—described in the next section—for the EFS.

Forecasting urban growth and development is always an uncertain business. But the situation for Damascus, where a large rural area is expected to eventually convert to an urbanized, incorporated area is particularly uncertain. Though the economic feasibility statement requires the specification of a *single* future for the Damascus area, there are many

possible futures (regarding the type, amount, and timing of growth, and the arrangements under which services are provided to that growth).

Additionally, there is only one piece of information that is binding on the proposed City leaders if incorporation is successful—the permanent tax rate. A permanent tax rate is the amount of tax the property owner must pay on per \$1,000 of assessed property value. All of the properties that are within the taxing district (such as a city, county, or special district) will have the same taxing rate. The amount of tax paid by each property owner depends on the assessed value of the property.

The EFS includes an analysis of how the petitioners assume the proposed city will plan for and provide urban services in a cost-effective manner to meet current needs and projected growth. If the voters choose to incorporate, they will elect a City Council whose decisions will determine the City's actual revenues and expenses. Nothing presented in this document can bind a future Council to a specific budget.

LEGAL REQUIREMENTS

According to ORS 221.035, chief petitioners who wish to place an incorporation proposal on the ballot must prepare an EFS that includes the following:

- A description of the services and functions to be performed or provided by the proposed city
- An analysis of the relationship between those services and functions and other existing or needed government services
- Proposed first- and third-year budgets for the new city demonstrating its economic feasibility.

In addition, ORS 221.034(2)(c) states the economic feasibility statement must:

- Indicate that the proposed city will plan for and provide urban services in a cost-effective manner at the minimum level adequate to meet current needs and projected growth
- Contain a proposed permanent rate limit for operating taxes to provide revenues for urban services
- Indicate that the proposed city will plan for residential development at or above the same urban density planned for an existing city, within the county, that has a similar geographic area within the existing city's urban growth boundary or, for a proposed city within three miles of Metro's boundary, a minimum urban residential density in accordance with a statewide planning goal and rules pertaining to needed housing for cities within Metro's urban growth boundary.
- Identify if the proposed city will be required to complete a public facility plan and a transportation systems plan, and show that they can demonstrate the ability to provide urban services to meet current

needs and projected growth. The proposed city may meet this requirement, in whole or in part, by establishing an agreement in principle with a city or a district, as defined in ORS 195.060, to provide urban services.

Finally, ORS 221.031(2) states that the tax rate limit shall be expressed in dollars per thousand dollars of assessed value and the tax rate limit shall be calculated for the latest tax year for which the assessed value of the proposed city is available. The latest tax year available for the Damascus incorporation area is 2003.

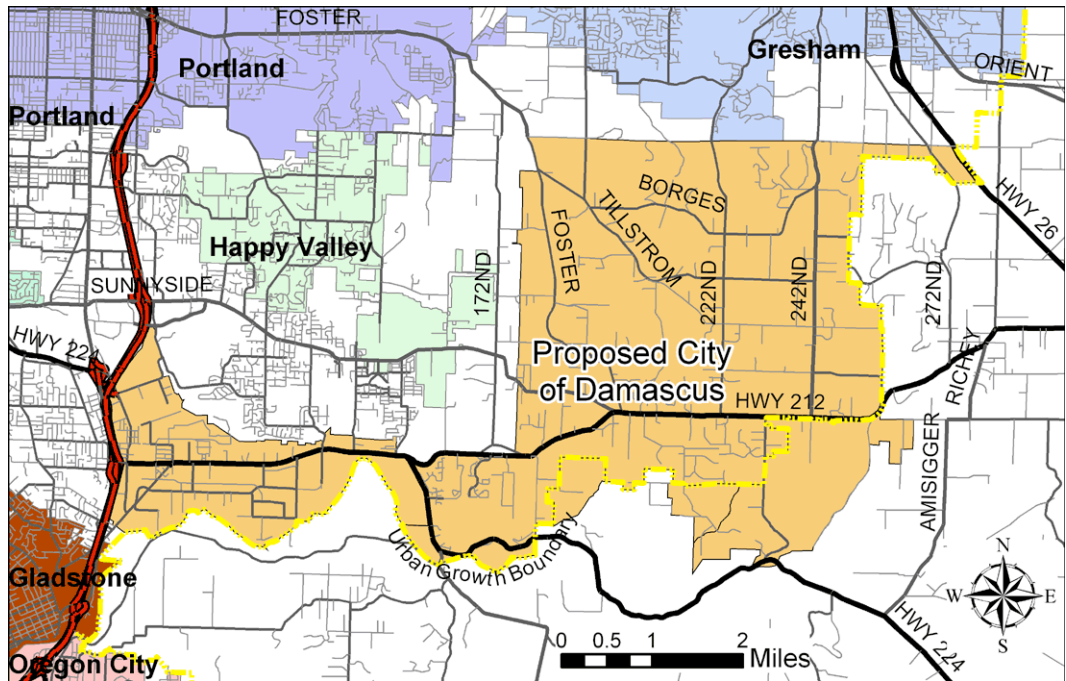
ASSUMPTIONS AND LIMITATIONS

Analysis contained in this document is based on assumptions detailed in Appendix A: Phase I Report: Damascus Economic Analysis. These assumptions include:

- **Forecast period.** State law requires that an economic feasibility statement describe a budget for the first and third years of city operation. ECO and the Committee both recognize that three years will not show much effect in the study area. During the first three years the County forecasts show little growth (actually, no growth) on the assumption that the new City will be engaged in planning for future urbanization, but will not have the zoning and services in place to allow real urbanization for at least three years. Year 10 will look much different from Year 3. Setting a permanent tax rate based on the amount and type of services that the new city might be offering in Year 3 is poor fiscal policy. Thus, our analysis includes Year 10.
- **Timing of incorporation.** According to ORS 221.050(4)(a), if the voters approve incorporation, the area becomes a city from the date of the election (November 2004). During the first three to seven months the City Council will be adopting a charter and a budget, and will probably not have a city manager (if they decide to have a city-manager form of government) and staff until after July 2005. Thus, we created a City budget for the first complete fiscal year beginning July 1, 2005. We also assume that the Council will choose a city-manager form of government, as is common in Oregon, and forecast staffing and costs accordingly.
- **Proposed incorporation boundaries.** The proposed incorporation area is located in the southeast quadrant of the Portland metropolitan area, as shown in Figure 1-1. Located entirely within Clackamas County, the proposed city and primary study area lie to the south of the City of Gresham, City of Happy Valley, and the Multnomah County border. A portion of the incorporation area extends to I-205 to the west. The majority of the southern boundary is along the urban growth boundary line, dipping below the UGB line in the south central area and the area encompassing Boring to the east. The proposed city is 11 miles wide (in the east-west direction) and 4.8 miles long (in the

north-south direction) with a total land area of 17,795 acres or approximately 27.8 square miles.

Figure 1-1. Proposed City of Damascus Boundary, 2004



Source: Metro and ECONorthwest.

Note: This map is for identification purposes only. The petitioners will submit a separate map for the purposes of ORS 221.031(2).

- **Inherent uncertainty in long-run economic and development forecasts.** Our analysis is essentially a 10-year forecast from incorporation date, and 10-year forecasts are rarely perfect matches with future reality, particularly towards year 10. Our 10-year forecast is dependent on 10-year forecasts of population and employment, property value changes, price inflation, and many other variables that are less reliable the longer the forecast period. Our analysis uses the best forecasts available, but changes in any of these variables from the forecasts we have used may impact the results of our analysis.
- **Contracting for services.** Initially, the new city council will provide only city administration and city council services. After incorporation the city council will chart the course of the city and may choose a different mix of services, and service providers, than assumed in this report.

Our analysis assumes that, in some instances, the proposed city will contract with existing service providers for the provision of local governmental services. Based on discussions with the Committee for the Future of Damascus and existing service providers, these contracted services include police services, and to a limited extent, planning and road operations and maintenance. All other services, except for general city administration, will not be services provided by

the City. Rather, residents will contract with existing special service districts; the role of the new City of Damascus will be limited to establishing intergovernmental agreements with service providers to allow them to service the City residents.

- **Capital costs.** Decisions regarding capital improvements affect operation and maintenance costs. Legal requirements for the economic feasibility statement, however, do not require a capital budget.

The capital budget has a direct relationship to the operation and maintenance budget for many services. First, the construction of a new city hall, roads, and parks all directly generate higher operation and maintenance costs. Second, more investment in capital could mean better quality or more efficient capital, which could mean lower annual operation and maintenance costs in the future. Third, it can be the case that if a fixed budget gets allocated more heavily to capital, then there is less to spend on maintenance, and vice versa. Capital improvement costs will ultimately be born by Damascus residents, unless regional, state, or national funds can successfully be acquired to pay for improvements.

The Damascus/Boring Preliminary Infrastructure Financial Analysis (Tashman Johnson, June 2003) stated that the area would have insufficient funds to pay for needed infrastructure, especially roads. If the proposed City of Damascus delays road building due to inadequate funding, the operations and maintenance costs for roads could be much higher than estimated for this report.

This report assumes the capital improvement findings from the Damascus/Boring Preliminary Infrastructure Financial Analysis (Tashman Johnson, June 2003).

- **Range of cost estimates.** When presented with a range of reasonable options for projections of revenues and costs of services and materials, report preparers made assumptions toward the middle but that favored the low side for revenues or the high side for costs. This method allows for the petitioners to plan for urban level services in a cost-effective manner at the minimum level adequate to meet current needs and projected growth, as required by state law.
- **Reporting of future expenses and revenues.** All cost and revenue estimates are in constant year 2003 dollars (unless otherwise stated). That method implicitly assumes that the effects of future inflation will be similar on the expenditure and revenue sides of the operating and maintenance budgets. This is assumed for all costs and revenues, except for labor costs. Although there will be productivity increases in the provision of public services, two factors have historically combined to increase the costs of service (even in inflation-adjusted terms): (1) real increases in staffing costs, and (2) rising public expectations regarding what are “acceptable” levels of services. To reflect the faster

growth rate, an annual real growth in the costs of services of 1.4% per year (half of the assumed inflation rate of 2.8%) was assumed in this report.

In general, municipal wages and materials typically increase with the Consumer Price Index for Urban consumers (CPI-U), though historically the number and breadth of services has increased so that total municipal costs have increased faster than the average rate of inflation. Oregon's recent problems with PERS suggest that trend could continue. On the revenue side, key sources such as property taxes are also assumed to keep pace with inflation. Under Measure 50, property taxes for existing properties are limited to 3 percent annual growth. Therefore, were inflation to exceed 3 percent annually over the next 20 years, the City's fiscal position would be worse than we have forecast.

All tables in this report show the staffing costs adjusted to reflect the 1.4% annual real growth in the cost of *labor*. Costs for *materials*, such as vehicles and furniture, are not adjusted.

- **Limitations of long-run fiscal analysis.** This economic feasibility analysis requires that report preparers analyze large-scale patterns of growth dependent upon policy decisions that have not occurred yet, over a 10-year period. Under these conditions, all aspects of the analysis are uncertain—not only are underlying economic conditions uncertain, but underlying policy conditions are as well. For example, laws affecting revenue collection and expenditure requirements can change substantially—one need only look at legislation over the past 20 years to see how changes in laws about things like affirmative action, treatment of persons with disabilities, building codes, environmental and land use regulation, and property tax relief have changed the local fiscal picture.

The charge of this report is to describe the long-run economic feasibility of Damascus. There are no models in general—and none for Damascus—that can simultaneously deal with even a handful of the most significant economic and policy variables that will determine the future City's fiscal position over the next 10 years. Thus, we are in the position of having to describe the future using scenarios, whose results derive from some assumptions that we believe are reasonable (understandable, intuitive, and consistent with the best practices described in the professional literature).

Hence, the report preparers' disclaimer: we do not believe that the results of this report can be summarized accurately in a few sentences. The results are contingent: *if* you accept these assumptions about data and relationships, and future policy makers agree, *then* the fiscal implications are these. But there will always be a legitimate debate about the data and relationships.

Additionally, the scope of work for this report limited preparers to addressing operations and maintenance costs only. As stated previously, capital costs will have an effect on operations and maintenance. The longer the City struggles with funding issues related to capital improvement projects and operations and maintenance, the more complicated the fiscal situation of the City becomes. In other words, financing a City in the first three to five years is relatively simple. However, it becomes much more difficult as a city grapples with the myriad funding needs as population and the demands for infrastructure increase.

METHODS

The steps of the analysis follow. The chapters of this report are organized to parallel these steps:

1. Define the legal requirements, incorporation area, and analysis period (Chapter 1).
2. Describe current conditions and likely future conditions in the proposed City (Chapter 2). The focus is on *factors that drive the demand for public facilities and services and the ability to pay for these services*. Chapter 2 discusses the forecast for four variables that are key in determining the demand for services, and thus the budget for those services (the cost and revenue requirements): population, dwelling units, employment, and assessed value.
3. Describe the fiscal (budget) impacts of having a new city provide services in 2005, 2007, and 2014 (Chapter 3). Calculate the necessary permanent tax rate to fund the proposed city.
4. Describe how the analysis addresses the legal requirements not addressed in previous chapters.

ORGANIZATION OF THIS REPORT

The remainder of this report is organized as follows:

- **Chapter 2: Forecast growth, permanent tax rate, and list of services provided and analysis of the relationship between those services and functions and other existing or needed government services** describes all services provided by the proposed City government and existing service providers. This chapter also includes information about the agreements in principal that the petitioners secured with service providers regarding the provision of services related to the capital improvement plan and transportation plan.
- **Chapter 3: First, third, and tenth year budgets** show the budget for the proposed City of Damascus in 2005, 2007, and 2014. This chapter also includes the permanent tax rate.

- **Chapter 4: Additional legal requirements** addresses the requirements in ORS 221.034(2)(c) that require the proposed city to provide urban services in a cost-effective manner, plan for residential development at Metro's minimum urban residential density, and show that the city can provide transportation and public facility systems to meet current needs and projected growth.
- **Appendix A: Phase I Report: Economic Feasibility Analysis** is a detailed report with additional analysis for the forecasts, capital, operations and maintenance, and revenues for a portion of the Damascus incorporation area.
- **Appendix B: Supplemental Report to the Phase I Report** is a detailed report establishing the analysis for the forecasts, operations and maintenance, and revenues for two additional incorporation areas.